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FEDERAL DEPOSIT INSURANCE CORPORATION

A risk-based capital proposal that redefines primary capital, assigns risk weights to on-balance sheet assets and certain off-balance sheet items, and lays the groundwork for establishing a minimum risk-based capital ratio has been approved for public comment by the Board of Directors of the FDIC (see the 4/9/87 Fed. Reg., pp. 11476-92). The proposal is based partly on a joint United States/United Kingdom Agreement proposed in January of this year by the FDIC, the Federal Reserve Board, the Comptroller of the Currency and the Bank of England, the agency said. The FDIC previously issued for comment a proposal for a supplemental adjusted capital measure that the agency would consider in tandem with existing ratios of capital to total assets (see the 2/20/86 Fed. Reg., pp. 6126-32). The FDIC has revised this proposal and is now seeking comments on the revision, which would apply to all FDIC-insured state nonmember banks. This proposal, the FDIC said, would 1) add a risk-based capital measure to be used in tandem with existing capital ratios and 2) amend the definition of primary capital for purposes of computing existing capital to total assets ratios. According to the agency, this revised proposal represents an effort to establish uniform capital standards for all federally supervised banking organizations operating in the United States. Comments on the proposal must be received by 6/8/87. For further information contact Stephen Pfeifer at the FDIC at 202/898-6903.

TREASURY, DEPARTMENT OF

Procedures to be followed by fiduciaries in making estimated tax payments for trusts and estates is the subject of an announcement issued by the IRS (see Announcement 87-32). According to the IRS, the procedures will assure that estimated tax payments are credited to the proper accounts and will minimize processing errors. The agency said it has developed a preprinted Form 1041-ES, Estimated Tax Voucher for Fiduciaries, for estates and trusts to use when making estimated payments. Under the Tax Reform Act of 1986, this is the first year in which trusts and estates are required to pay estimated tax. The first installment for calendar year trusts and estates is due 4/15/87. The IRS requests that fiduciaries paying estimated tax for more than one trust submit a separate Form 1041-ES, and a separate check, for each trust. However, the agency notes that fiduciaries who submit a single check for multiple trusts can minimize errors by filing a separate preprinted estimated tax voucher for each trust. Announcement 87-32 will appear in Internal Revenue Bulletin 1987-16, dated 4/20/87.

Proposed regulations setting the limits of permitted political activity for certain tax-exempt public charities filing elections under Internal Revenue Code Section 501(h) will only apply to periods beginning after the date of final publication, the IRS announced 4/9/87 (see IR-87-49). The agency also said the final regulations will provide appropriate transition rules with respect to multiple year grants awarded by private foundations to public charities before the effective date of the final regulations. Pending issuance of the final rules, the agency said the proposed regulations will not be used by service personnel in conducting examinations, issuing rulings, or otherwise disposing of any case. The proposed regulations were published in the 11/5/86 Fed. Reg., pp. 40211-23 (see the 11/10/86 Wash. Rpt.). According to the agency, the proposed rules that have received substantial comment include: the definition of lobbying; the allocation of expenses and other accounting rules; the reliance rules for grant-making by private foundations; and the rules concerning affiliated organizations. The IRS has scheduled a public hearing on the rule proposal for 5/11/87 and, if necessary, 5/12/87 (see the 3/9/87 Wash. Rpt.). Anyone wishing to speak at the hearing must send a request along with a brief outline of the proposed oral comments to the agency by 4/20/87. For further information contact Paul Acceturra at the IRS at 202/566-3544.

TREASURY, DEPARTMENT OF

Temporary and proposed regulations regarding the payment of the excise tax by employers receiving (directly or indirectly) reversions of qualified plan assets required by the Tax Reform Act of 1986 have been issued by the IRS (see the 4/2/87 Fed. Reg., pp. 10563-64 and pp. 10583-84). The new tax law adds section 4980 to the Internal Revenue Code of 1986, which imposes a tax of 10 percent of the amount of any employer reversion from a qualified plan. The tax is to be paid on a quarterly basis by the employer maintaining the plan. The IRS notice states that the tax will be due not later than the last day of the second month following the calendar quarter in which the reversion occurs. The regulations are proposed to apply to reversions occurring after 12/31/85. Written comments are due by 6/1/87. For further information contact Suzanne Tank at the IRS at 202/566-3938.

An automatic two-month extension to 6/15/87 to pay the first installment of estimated tax will be granted to any U.S. citizen or resident alien who files on a calendar-year basis if those individuals are outside the United States or Puerto Rico on 4/15/87, the IRS announced 4/9/87 (see Announcement 87-33). The announcement is "contrary to instructions contained in Form 1040ES and various IRS publications such as Publication 54, Tax Guide for U.S. Citizens and Residents Abroad" that the first installment is due 4/15/87, according to the IRS. The IRS noted that the extension to pay the estimated tax was eliminated by the Tax Reform Act of 1984, but that an extension was granted for payments due 4/15/85 and 4/15/86 in order "to give taxpayers ample time to understand the changes in the estimated tax provisions." However, the IRS said that the 1987 extension is the last such extension that will be granted. Announcement 87-33 will appear in Internal Revenue Bulletin No. 1987-16, dated 4/20/87.

SPECIAL: CPA TESTIFIES AT SENATE BANKING HEARING ON THIRD WORLD DEBT ISSUES

Accounting and tax issues relating to U.S. commercial banks with loan exposures to heavily indebted less developed countries (LDCs) was the subject of testimony presented on 4/2/87 by Thomas F. Keaveney, CPA to the Senate Banking Subcommittee on International Finance & Monetary Policy, which is chaired by Sen. Paul Sarbanes (D-MD). Mr. Keaveney, who is a partner and National Director - Banking for Peat Marwick Main & Co., said, "In my opinion, the framework of generally accepted accounting principles as applied to LDC debt has not detracted from the orderly and disciplined process of restructuring and expanding LDC and banker relationships. In fact, the financial reporting and disclosure by banks of their LDC lending has been substantial and has allowed our capital markets to fully evaluate them--while at the same time, permitting the banks to work with each LDC in a free market environment to produce appropriate solutions to the needs of both debtor and creditor." Mr. Keaveney's testimony addressed six specific topics as follows: 1) Accounting for loan losses; 2) Financial Accounting Standards Board Opinion 15 - "Accounting by Debtors and Creditors for Troubled Debt Restructuring;" 3) Accounting for Debt/Equity Swaps; 4) Accounting for Philippines Investment Notes; 5) Repeal of the tax deduction for loan loss reserve additions for larger banks, and 6) Foreign tax credit limitations included in the Tax Reform Act of 1986.

During his testimony, Mr. Keaveney emphasized his opposition to deferring loan losses for LDC loans. He stated, "Deferral of loan losses for LDC loans, an accounting procedure suggested by some, would not be in accordance with generally accepted accounting principles and, in my opinion, would jeopardize the credibility of bank financial statements...Any proposal by this Subcommittee should support, not subvert, the credibility of bank financial statements." He also advocated "reinstatement in the tax code of the reserve method for loan losses and relief with respect to the foreign tax credit limitation--at least as it applies to LDC loans...." Mr. Keaveney has been a member of the AICPA since 1966 and is a former member of the AICPA's Banking Committee.

SPECIAL: PROPOSAL TO AICPA MEMBERSHIP ON MANDATORY PEER REVIEW NARROWLY DEFEATED

A 61 percent favorable vote was awarded to a proposal submitted for a vote to members of the American Institute of Certified Public Accountants (AICPA) to require membership in the Institute's SEC Practice Section for firms with SEC clients. Although the necessary two-thirds majority vote of all AICPA members to achieve passage of the proposal was not attained, Philip B. Chenok, AICPA president, said that more than 130,000 members voted on the proposal and that "the result is a strong signal of our continuing commitment to quality enhancement programs." J. Michael Cook, chairman of the AICPA, said, "In view of the strong majority favoring peer review for AICPA members auditing publicly held companies, the Institute will strongly support the thrust of a similar proposal for peer review recently issued for comment by the SEC. I would have preferred for our proposal to have been adopted first, but recognize that the SEC approach will in substance achieve the same objective." Mr. Cook also stated, "Our commitment to improving the quality of practice through peer review is strong. There's no doubt that peer review is here to stay. It is an essential element of the profession's commitment to safeguarding the public interest in the quality of work done by CPA firms." More than 85 percent of all publicly-held companies are now audited by firms subject to peer review requirements imposed by the firms' participation in the AICPA's voluntary program. A lawsuit challenging the AICPA's referendum was dropped after the outcome of the vote was disclosed.

For further information contact Shirley Hodgson or Joseph Petito at 202/872-8190.

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